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SUBJECT: KAZAKHSTAN: A/S BOUCHER AND DEPUTY PRIME MINISTER
MASIMOV FOCUS ON THE ECONOMY, INVESTMENT, AND AFGHANISTAN

¶1. (SBU) Summary: Deputy Prime Minister Masimov expressed concern regarding the pace of bilateral WTO negotiations with the U.S. during a September 8 meeting with Assistant Secretary Boucher and requested a sign of U.S. support for

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Kazakhstan's early accession during President Nazarbayev's upcoming visit to Washington. The Deputy Prime Minister briefed A/S Boucher on Kazakhstan's efforts to diversify its economy and informed Boucher that he expected the Kazakhstani delegation visiting Afghanistan in September to identify one or two investment projects. Masimov also responded positively to A/S Boucher's suggestion to expand dialogue on nuclear energy issues. End summary.

¶2. (U) Assistant Secretary of State for South and Central Asian Affairs Richard Boucher met on September 8 in Astana with Deputy Prime Minister Karim Masimov. The Ambassador and Pol-Econ chief (notetaker) were also present. From the Kazakhstani side, A. Kamaldinov and Zhanna Sartbayeva of the Prime Minister's staff, director of the MFA's European Cooperation Department Yerkin Akinzhanov, and deputy director of the MFA's Europe and Americas Department Dauren Toleukhanov also participated.

Concern Regarding WTO Negotiations

¶3. (SBU) A/S Boucher opened the meeting by noting that the U.S. looks forward to President Nazarbayev's upcoming visit to Washington, which will be an excellent opportunity to discuss Kazakhstan's many accomplishments. Masimov agreed that the visit was likely to contain many positive elements, quickly adding that after receiving the U.S. Trade Representative's most recent response he was concerned regarding progress on bilateral World Trade Organization negotiations with the U.S. Boucher reassured Masimov that the U.S. fully supports Kazakhstan's early accession, and promised to convey his concerns to the experts handling the negotiations. Masimov asked for the State Department's active engagement in the negotiations and for a sign of U.S. support during the visit.

Singapore Meetings

¶4. (SBU) Masimov noted that he was looking forward to seeing Under Secretary Josette Sheeran during the upcoming World Bank/International Monetary Fund meetings in Singapore, particularly at the September 18 Kazakhstani presentation on regional economic cooperation. (Note: Post learned later that Assistant Secretary for Economic and Business Affairs Dan Sullivan is attending the Singapore meetings on Under Secretary Sheeran's behalf. End note.) A/S Boucher said

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that the U.S. had been in contact with all the Central Asian countries except Uzbekistan to encourage their participation in the event. Masimov said that the Vice President of the World Bank had promised to send good representatives.

Economic Diversification

¶5. (SBU) In response to A/S Boucher's question, Masimov described progress on the diversification of Kazakhstan's economy. 100% of oil revenues began going directly to the National Fund as of July 1, he noted. The fund was now over \$10 billion and would reach \$18 billion by the end of the year. President Nazarbayev had announced a new stage of administrative reform in his September 1 address to Parliament, Masimov said, including civil service reform, reduced government intervention in the economy, and further economic liberalization. Masimov cited New Zealand and Singapore as good models for civil service reform; Kazakhstan seeks a smaller, more professional, better paid corps of public servants. Development of small and medium sized enterprises is a priority, according to Masimov, as is agricultural reform. Forty-three percent of the Kazakhstani population lives in the countryside. Secretary of Agriculture Johanns' July visit to Kazakhstan had been

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particularly important, Masimov said, in setting the stage for expanded cooperation with the U.S. on things such as genetically modified organisms. Predicting that the world could face a severe food shortage within 20 years, Masimov predicted that Kazakhstan could play a major role in the global market if it reformed its agricultural sector.

¶6. (SBU) Masimov explained that the second stage of economic modernization in Kazakhstan focused on increased competitiveness and transparency. The Kazakhstani government sought to promote better corporate governance, accountability, and transparency -- all of which were required for Initial Public Offerings. Masimov noted that they were in negotiations with a "prominent Westerner" to be on the boards of Samruk, Kazyna, and KazAgro (a new state holding firm in the works). These measures were all intended to support Nazarbayev's strategy of joining the 50 most competitive countries in the world, said Masimov. He pointed out that Kazakhstan had moved from 82 to 63 in the World Bank's "Doing Business 2007" report.

¶7. (SBU) Kazakhstan is also working to support high technology and the financial sector, Masimov said. A delegation from Microsoft recently examined the prospect of using Kazakhstan as a regional hub. The Almaty Information Technology Park will open in mid-September, Masimov added, and efforts to develop Almaty as a financial center continue. The Kazakhstani financial system enjoys a strong competitive advantage in the region, and Kazakhstani banks have been quite successful in raising capital on world markets. Kazakhstan is now the largest source of foreign direct investment in Georgia, Masimov noted. Masimov said that he would meet with World Bank president Wolfowitz in Singapore to finalize a cooperation agreement which would help Kazakhstan play a larger role in Central and South Asia, including Afghanistan.

18. (SBU) A/S Boucher told Masimov that the issues he had highlighted were very important. Problems such as corruption, abusive tax audits, and inconsistent government processes hindered foreign investment. He noted that the world financial centers are always known for having the cleanest record on corruption and the strongest anti-corruption agencies. Hong Kong was a particularly good example, having been quite corrupt until the establishment in 1975 of the Independent Corruption Commission.

Investment in Afghanistan

19. (SBU) Masimov told Boucher that a Kazakhstani delegation would visit Afghanistan before Nazarbayev's visit to Washington in order to examine, among other things, investment opportunities. He directed his staff to ensure that the delegation included a representative of the state holding company Kazyna, which had created a special vehicle for investment abroad.

110. (SBU) A/S Boucher noted that he had shared a list of investment ideas in Afghanistan with Ambassador Saudabayev, and had highlighted the projects which supported regional economic integration. He urged that the Kazakhstani delegation examine the investment question closely. Roads and electric networks are not just economic projects, Boucher noted; they are also crucial to security and stability because they allow the central government to extend its authority to the regions.

111. (SBU) Masimov told Boucher that Kazakhstan would "definitely find one or two projects" in Afghanistan. A/S Boucher welcomed the news and promised to find a way to include at least symbolic U.S. participation in the projects.

Nuclear Power

112. (SBU) A/S Boucher asked Masimov whether nuclear power

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would be important in Kazakhstan in the long term. Masimov noted that nuclear cooperation had been the main issue during Japanese Prime Minister Koizumi's recent visit. (Note: According to the Japanese, discussions on nuclear issues were limited to uranium mining and processing.) Koizumi's top energy advisor had told Masimov that by 2020, the developed world would rely primarily on nuclear energy. Nuclear power already supplies 60% of Japan's energy needs. Masimov said that these trends would benefit Kazakhstan, which possesses 25% of world uranium reserves. Boucher highlighted the need to raise the level of cooperation with the U.S. on nuclear power generation, including safety and regulatory issues. Masimov indicated that he looked forward to more dialogue on the issue.

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